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Message Text

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44
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INFO OCT-01 ISO-00 SSO-00 NSCE-00 USIE-00 INRE-00 CIAE-00

DODE-00 PM-07 H-03 INR-10 L-03 NSAE-00 NSC-10 PA-04

RSC-01 PRS-01 SPC-03 SS-20 ACDA-19 IO-14 CAB-09

COME-00 EB-11 FAA-00 DOTE-00 INT-08 SCI-06 SCEM-02

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O P 141953Z NOV 73
FM SECSTATE WASHDC
TO AMEMBASSY BONN IMMEDIATE
INFO USMISSION BERLIN PRIORITY
AMEMBASSY PARIS PRIORITY
AMEMBASSY LONDON PRIORITY
AMEMBASSY MOSCOW PRIORITY
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C O N F I D E N T I A L STATE 224825

E.O. 11652: GDS
TAGS: ETRN, WB, UK, US
SUBJECT: BEA AND BERLIN AIR SERVICES

REF: A. STATE 223330
B. BONN 16313
C. STATE 202110
D. STATE 217090

1. SUMMARY: NOVEMBER 13 DEPTOFFS REVIEWED FOR UK EMBASSY REPS (WILBERFORCE AND PRYOR) RESULTS OF RECENT BEA-PAN AM CONFIDENTIAL

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MEETING IN LONDON (REF A). NOTING LACK OF PROGRESS AT

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THAT MEETING, US REPS REAFFIRMED EARLIER POSITION THAT US COULD NOT SUPPORT HIGHER SUBSIDY REQUEST OR AGREE TO MAJOR REDUCION IN BERLIN AIR SERVICES. UK REPS EXPRESSED DISAPPOINTMENT THAT TWO GOVERNMENTS UNABLE TO AGREE ON JOINT APPROACH TO FRG ON FARE-SUBSIDY-CAPACITY PACKAGE, AND SUGGESTED ONLY STEP OPEN TO LONDON WAS UNILATERAL APPROACH TO FRG FOR SUBSIDY TO PERMIT CONTINUED BEA SERVICE TO BERLIN. END SUMMARY.

2. AFTER REVIEWING MAJOR POINTS FROM LATEST DEPARTMENTAL MEETING WITH PAN AM ALONG LINES PARA 2 REF A, DEPTOFF MADE FOLLOWING POINTS TO UK EMBASSY REPS:

(A) DECISIONS ON BERLIN AIR FARES MUST REFLECT

UNANIMOUS AGREEMENT OF HREE AIR ATTACHES IN BONN. OUR BILATERAL DISCUSSIONS ABOUT FARE INCREASES HAVE NOT ALTERED THIS REQUIREMENT. COMPROMISE ON FARE INCREASE MUST BE REACHED IN ONN, AND MUST BE BASED ON DATA WHICH CAN STAND CLOSE GERMAN SCRUTINY DURING BCATAG REVIEW.

(B) USG CANNOT JOIN UK IN APPROACH TO FRG ON AN INCREASE IN DIRECT PASSENGER SUBSIDIES, BUT WOULD JOIN IN APPROACH FOR PAYMENT COVERING COSTS TO BEA AND PAA IN MOVING TO TEGEL, AND MIGHT BE PREPARED TO DISCUSS OTHER POSSIBLE INDIRECT SUBSIDIES, SUCH AS WAIVER OF LANDING FEES.

(C) WE HAVE APPROVED MODEST FREQUENCY REDUCTIONS BY BEA AND PANAM IN WINTER 73-74 SCHEDULES AND PROBABLY WOULD SUPPORT FURTHER MODEST REDUCTIONS FROM TIME TO TIME WHEN BOTH AIRLINES AGREE THAT CONDITIONS WARRANT. HOWEVER, USG AND PAN AM CANNOT ACCEPT JOINT ONE-FOR-ONE RATIONALIZATION OF SCOPE PROPOSED BY BEA AT NOVEMBER 5 MEETING. WE COULD UNDERSTAND IF BEA WISHED EFFECT UNILATERAL CUTS TO MAKE ITS OPERATION ECONOMICALLY VIABLE, BUT STILL FAIL TO UNDERSTAND WHY BRITISH INSIST ON MAINTAINING THAT USG MUST ACCEPT WHOLE UK PACKAGE, CONFIDENTIAL

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OR FACE WITHDRAWAL OF BEA FROM BERLIN AIR SERVICES

3.IN RESPONDING TO DEPTOFFS PRESENTATION UK EMBOFFS COVERED MUCH THE SAME GROUND DISCUSSED PREVIOUSLY BY GOVERNMENT AND AIRLINE REPS (REFS A AND C) UK REPS AGAIN EXPRESSED DOUBTS THAT RAISING 10,000 FOOT CEILING WOULD SOLVE BEA'S FINANCIAL PROBLEM. THEY ALSO RE-ITERATED BRITISH INCREDULITY THAT PAN AM SATISFIED WITH

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PRESENT PROFIT MARGIN AND 56 TO 60 PERCENT LOAD FACTOR. FINALLY UK REPS EXPRESSED SURPRISE AT PAN AM FARE INCREASE PROPOSAL SINCE, THEY CLAIMED, UK HAD EXPECTED BOTH AIRLINES TO FILE IDENTICAL 10 PERCENT FARE INCREASE PROPOSALS. UK REPS AGREED THAT TRIPARTITE APPROACH TO FRG ON FARE INCREASE NECESSARY AND SAID CAAS SHOULD MOVE AHEAD TO DEVELOP COMPROMISE. HOWEVER, SINCE US COULD NOT AGREE ON FULL PACKAGE APPROACH TO FRG, WHICH UK CONTINUED TO BELIEVE WAS NECESSARY, UK WOULD WISH APPROACH FRG UNILATERALLY TO EXPLAIN BEA'S FINANCIAL PROBLEM. UK WOULD THEN ASK FRG TO COVER DEFICIT, AND EXPLAIN THAT IF FRG UNWILLING TO ASSIST, BEA WOULD BE FORCED TO CEASE OPERATING TO BERLIN, SOMETHING WHICH UK ASSUMES FRG WOULD WISH TO PREVENT.

4. UK REPS SPECULATED ON EFFECT EUROPEAN FUEL SHORTAGE WOULD HAVE ON NUMBER OF FLIGHTS AIRLINES COULD OPERATE TO BERLIN. DEPTOFF AGREED THAT CUTBACKS IN FUEL AVAILABILITY MIGHT RESULT IN REDUCTIONS, BUT MADE CLEAR OUR PREFERENCE THAT THIS BE DEALT WITH AS SEPARATE ISSUE AND NOT VIEWED AS MEANS TO BRING ABOUT WHOLESALE CUTBACK IN FREQUENCIES.

5. COMMENT; MEETING WITH BRITISH PROBABLY LAST TO BE HELD IN WASHINGTON ON THIS SUBJECT UNLESS UK CHOOSES ESCALATE APPROACH TO HIGHER LEVEL. THEREFORE,WE EXPECT LOCUS OF CONVERSATIONS WILL SHIFT PERMANENTLY TO BONN. FIRST REQUIREMENT IN THE BONN FORUM WILL BE TO REACH AN AGREEMENT ON A FARE INCREASE PROPOSAL. IN THIS CONNECTION WE DO NOT FEEL IT APPROPRIATE FOR AIRLINES TO MAKE ANY FURTHER SUBMISSIONS. RATHER,THREE CAAS SHOULD UNDERTAKE IMMEDIATE IN DEPTH EXAMINATION OF BEA AND PAN AM SUPPORTING DATA FOR FARE INCREASE AND, CONFIDENTIAL

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FOLLOWING SCENARIO OUTLINED REF D, DEVELOP AGREED COMPROMISE PROPOSAL FOR SUBMISSION TO ALLIED CAPITALS FOR APPROVAL AND THEN SUBMISSION TO GERMANS IN BCATAG FORUM.

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